Prescott Securities

STOCKBROKERS & FINANCIAL ADVISERS

Morning Note

29 July 2010

MARKET EXPECTED TO SLIP AFTER WEAK LEAD FROM THE US

Index	Index Level	Change (%)	Stocks	Price ($)	Change (%)	Price rises	Price ($)	Change (%)
All Ordinaries	4542	0.63	ANZ	23.23	1.31	WES	31.13	2.54
ASX S&P200	4530	0.72	CBA	52.60	1.00	CYA	0.81	2.53
SPI Futures	4485	-0.51	NAB	25.34	1.48	WBC	24.15	1.90
Dow Jones (US)	10498	-0.38	WBC	24.15	1.90	QBE	16.72	1.77
FTSE (UK)	5320	-0.86	MQG	38.86	-1.12	TAH	6.89	1.62
Shanghai(China)	2634	2.26	BHP	40.20	1.13	Price falls	Price ($)	Change (%)
Nikkei 225 (Jap)	9753	2.70	RIO	71.04	1.36	COH	72.45	-1.80
Hang Seng (HK)	21091	0.56	WPL	42.16	0.48	CEU	0.40	-1.25
AUS/USD	0.8924	-1.12	WOW	25.80	-0.08	MQG	38.86	-1.12
Gold ($US)	1160.40	0.21	WES	31.13	2.54	CPA	0.96	-1.03
Oil ($US)	76.83	-0.13	HVN	3.57	0.56	TLS	3.24	-0.92

Market Summary

Yesterdays Australian trade saw a flat to positive session early before lower than expected inflation numbers pushed the market higher. The announced inflation figures relieves some of the pressure on the Reserve Bank to continue to raise interest rates at the coming August meeting, although raising interest rates in the middle of an election campaign can effect the result and is usually avoided. The news was positive with the make up being mainly tobacco products in response to higher taxes, medical services and fuel with detractors being fruit and domestic travel costs.

Overnight the European markets fell as participants wondered if economic growth would falter, after the US released lower durable goods orders and a bigger than expected fall in consumer confidence pushed US markets lower.

After market, the US Federal Reserve released its Beige Book data which showed economic activity continued to increase with improvement in most of the 12 regions but participants continue to focus on the negative parts of the data with a weak improvement in retail sales and weak construction numbers. Pessimism abounds in financial markets as there were concerns on whether the flattening in economic grwoth was usual or could signal the beginning of a downturn.

Australian trade today is likely to be negative in line with US markets. Australian markets continue to tread water before reporting season. Companies have had a chance to report profit downgrades which have been relatively few perhaps indicating a solid profit season ahead. This morning the SPI Futures are 23 points lower.

Australian Company & Economic Reports

CPI Rise Weak: Inflation rose less than expected in the second quarter of 2010, supporting the case for the Reserve Bank of Australia to halt its interest rate rise possibly until 2011. The consumer price index rose 0.6% in the second quarter and rose 3.1% from a year earlier, the Australian Bureau of Statistics said. Core inflation, which is critical for interest rate decisions, rose 0.5% in the second quarter and rose 2.7% from a year earlier, well within the tolerances of the central bank's 2%-3% inflation target range. A tobacco tax increase and a strong rise in health costs added to inflation through the quarter. Offsets came in the form of a fall in prices for food, communications and holiday costs, the ABS said.

Lihir Gold (LGL) said that second quarter production was in line with its guidance at 244,000 troy ounces, a 6% rise on the previous quarter. But costs at the company's flagship project on Lihir Island in Papua New Guinea came in ahead of guidance and expectations. Lihir said the three months to June 30 had been solid and the company was on track for full year production of 1m-1.1m ounces. The company reported a record cash margin during the quarter of US$576/oz and said its planned merger with Newcrest Mining was proceeding on schedule.

The group's cash margin was helped by the generally higher gold price over the quarter and by costs falling to US$461/oz. But gross cash costs at Lihir Island rose 7% to US$118m, marking a second quarter above the group's typical guidance of US$105 a quarter after the March quarter's US$109.6m outcome. Full-year production guidance for Lihir Island remains unchanged at 800,000-870,000 oz, while Mt. Rawdon, in Queensland, comfortably exceeded expectation to produce 24,500 oz in the quarter. Bonikro, the group's project in Ivory Coast, suffered higher rainfall and mechanical failures during the second quarter, pushing production below plan to 22,500 oz. LGL weakened 3 cents (0.73%) to $4.06.

MAp Group (MAP) said that MAp Airports International is considering selling its 16% stake in Mexican airport operator Grupo Aeroportuario del Sureste, or ASUR, in the near term. MAp said that it is currently considering selling its series B shares and American depositary shares in the operator through vehicle JMEX B.V. A MAp spokeswoman confirmed the shares constitute MAp Airports International's entire stake in the company. MAP rose 3 cents (1.01%) to $2.99.

International Market Report

US stocks fell on Wednesday as a report from the Federal Reserve pointed to signs that the economic recovery may be running out of steam, adding to the market's disappointment over a drop in durable-goods orders.

The Dow Jones Industrial Average dropped 39.81 points (0.38%) to 10,497.88, snapping a four-day winning streak. Boeing was the measure's worst performer with a drop of 1.9%, after the defence contractor and airplane maker posted second-quarter revenue below analysts' expectations and warned it is likely to cut jobs in a defence unit facing increasing budget pressures from the Pentagon and overseas customers.

Among the Dow's other decliners, Pfizer fell 1.8%, Home Depot dropped 1.8%, and Alcoa declined 1.5%.

The Nasdaq Composite shed 23.69 (1.04%) to 2,264.56. The Standard & Poor's 500 index lost 7.71 (0.69%) to 1,106.13.

The declines followed data showing demand for durable goods slid for a second straight month in June, another sign of weakness for US manufacturing and the overall economy. In addition, the Fed said in its latest beige book report that economic conditions continued to improve in most of its 12 regional districts, but the advances were modest, with retail sales posting only small gains and housing and construction remaining weak. Bank lending, meanwhile, was still tight.

For Australian ADRs listed on the NYSE, **BHP Billiton** rose 0.33%, **Rio Tinto Plc** remained unchanged, **Telstra Corporation** shed 2.31% and **Westpac** dipped 1.16%.

In economic news, in its latest beige book report, the Fed said US economic activity rose only modestly in June and the first half of July in another sign that the recovery may be running out of steam.

Demand for US manufactured durable goods slid for a second consecutive month in June in another sign the manufacturing sector expansion is slowing. Economists expected a 1.1% gain.

Most European shares dropped on Wednesday, breaking a six-session winning streak, as an unexpected decline in US durable-goods orders rekindled worries over economic growth and outweighed positive earnings reports from companies including Infineon Technologies and Deutsche Boerse.

A notable exception to the broad-based losses was Portugal, where the PSI-20 stock index ended up 1% after Portugal Telecom agreed to sell its stake in Brazil's Vivo Participacoes to Spain's Telefonica for EUR7.5bn.

The Stoxx Europe 600 index fell 0.4% to 257.21 points. It closed at a level not seen for more than five weeks on Tuesday and started today's session with gains, but disappointing economic news prompted traders to reverse direction.

Orders for new US-made durable goods fell 1% in June, the second straight monthly decline and the biggest drop in 10 months, data showed. Economists had expected 1% growth.

Although shares have been advancing lately, the Stoxx Europe 600 index is still off by around 6% from a twelve-month closing high of 272.14 hit on April 15.

Supported by the financial sector, the French CAC-40 index eked out small gains, ending up 0.1% at 3,670.36. Shares of BNP Paribas gained 2.2% and Societe Generale added 1.8%.

Germany's DAX index fell 0.5% to 6,178.94 and the UK's FTSE 100 index declined 0.9% to 5,319.68.

On the FTSE 100, **Rio Tinto** gained 0.95% pence and **BHP Billiton** advanced 1.17%.

Asian markets ended mostly higher, with Japanese stocks charging ahead as solid corporate earnings from Canon put some extra gloss on the already better outlook for exporters. Japan's Nikkei Stock Average was the best performer of the region, surging 2.7% as Canon soared 5.7% on the back of its quarterly results on Tuesday. China's Shanghai Composite climbed 2.3% to finish at a two-month high and Hong Kong's Hang Seng Index gained 0.6%.

Base metals on the London Metal Exchange closed higher as positive comments from China regarding its economic growth outlook continued to provide upward pressure despite disappointing US data. Aluminium rose $13 (0.63%) to $2,070 while copper firmed $90 (1.27%) to $7,175 and nickel fell $80 (0.39%) to $20,450. Zinc added $45 (2.36%) to $1,955 and lead strengthened $45 (2.28%) to $2,015. Comex copper was last quoted at 324.00 US cents per pound.

Gold futures edged higher on Wednesday, rising above three-month lows on bargain buying but showing little direction as demand for refuge assets remains low. Spot gold was last quoted at $1,162.35. Comex gold futures increased $4.40 (0.38%) to $1,162.40. Spot silver was last quoted at $17.47.

Crude fell slightly as mixed economic data and a report on US oil inventories kept traders wary about demand in a sluggish recovery. West Texas Intermediate was last quoted at US$76.99 per barrel.

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